

AS Daugavpils Lokomotīvu Remonta Rūpnīca

ANNUAL REPORT

for the period ended 31 December 2009

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
STATUTORY ANNUAL REPORT
for the period ended 31 December 2009

CONTENTS

General Information	3 - 4
Report of the Management	5
Financial statements	
Income statement	6
Balance sheet	7 - 8
Statement of changes in equity	9
Cash flow statement	10
Notes to the financial statements	11 - 25
Independent Auditor's Report	26 - 27

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
STATUTORY ANNUAL REPORT
for the period ended 31 December 2009

INFORMATION ON THE COMPANY

Name of the company	AS Daugavpils Lokomotīvu Remonta Rūpnīca
Legal status of the company	Joint-stock company
Number, place and date of registration	Enterprise Register Nr. 40003030219 Riga, 3 October 1991 Commercial Register Riga, 8 June 2004
Address	1 Marijas Street, Daugavpils, LV-5401 Latvia
Type of operations	Railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts.
Names of the major shareholders	AS SKINEST RAIL - 49% Moisa 4, 13522 Tallinn, Estonia AS SPACECOM - 25,27% Kadaka tee, 1, 10621 Tallinn, Estonia LLC LOKOMOTIIV IVESTEERINGSUUD - 11,09% 18-18 Tartu Street, 10115 Tallinn, Estonia VAS Valsts sociālas apdrošināšanas aģentūra 3,2% 70a Lāčplēša Street, LV-1011, Riga, Latvia Other shareholders - 11,44%
Names and positions of the Counsel members	Oleg Ossinovski - Chairman of the Council Juri Krasnošlik - Vice Chairman of the Council Vasily Barashkov - Member of the Council Maarika Piir - Member of the Council Oleg Rumjantsev - Member of the Council

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
STATUTORY ANNUAL REPORT
for the period ended 31 December 2009

Names and positions of the Board members	Aivar Keskula - Chairman of the Board (until 29.11.2009) Natālija Petrova - Chairman of the Board (from 30.11.2009) Natālija Petrova - Member of the Board (until 29.11.2009) Andrejs Šilovs - Member of the Board Kazimirs Steļmačēnoks - Member of the Board
Financial year	1 January, 2009 - 31 December, 2009
Auditor's name and address:	Baker Tilly Baltics SIA License No. 80 Kronvalda boulevard 10 Riga LV-1010 Latvia Certified auditor in charge Eriks Bahirs Certificate No.136

REPORT OF THE MANAGEMENT

Type of operations

Basic activity of AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" (further - the Company) is railway rolling stock overhaul repair, maintenance and upgrade, manufacturing and repair of its spare parts. AS "DAUGAVPILS LOKOMOTĪVJU REMONTA RŪPNĪCA" provides a repair services of all types of railway rolling stock - diesel, electric locomotives and electric trains.

Performance of the Company during the financial year

In 2009 net sales of the Company was in amount 13,5 millions lats (23,7 million lats in 2008). Sales of principal activity comprised 11,21 million lats, that compile 64,2% to 2008. In addition to principal activity the Company rendered to subsidiaries the following services: sales of materials, rental services, administration and management services and others, which provides the additional net sales of 4,0 million lats (in 2008 - 7.1 million lats). Net profit for the year is 7 thousand. In 2009 The Company performed revaluation of tangible assets (lands and buildings), that resulted in decrease of its residual value for 288 thousand lats.

Performance of the Group during the financial year

In 2009 the consolidated net sales of the Company amounted to 10,1 million lats (57,6% in respect of annual turnover 2008).

In 2009 the Group has been partly provided by the repair orders during the year, which is the reason why the number of the Group employees was reduced, as well as was set on part-time job mode. For these reasons, the Group completed the year 2009 with the loss in amount of Ls 246 thousand. In 2009, the Group managed to offset partly the lack of diesel locomotive repairs with other services.

In 2009 the Group exported its products to 8 countries, the total export volume amounted to 7,9 million lats (in 2008 - 12,8 million lats), while turnover in Latvia amounted to 2,2 million lats (in 2008 - 2,9 million lats). The main directions of export in 2009 were the EU countries: Lithuania and Estonia, and the third countries: Russia and Uzbekistan.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 32

Post balance sheet events

In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the Company.

Distribution of profit proposed by the Board

	2009
	Ls
Profit share to be distributed	7 352
Proposed profit distribution:	
Retained earnings	7 352

Future prospects

In 2010 The Group intends to continue the economic activity started in 2009: to increase the turnover of railway rolling stock repairs, as well as diesel - electric locomotive technical maintenance turnover. Key priority - quality provision of services rendered, new type of services and new stock production acquirement, new customer attraction.

Natālija Petrova
Chairman of the Board

21 April 2010

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

INCOME STATEMENT

	Notes	2009 Ls	2008 Ls
Net sales	(1)	13 514 954	23 724 616
Cost of sales	(2)	(12 528 684)	(21 259 073)
Gross profit or losses		986 270	2 465 543
Distribution expenses	(3)	(120 158)	(212 666)
Administrative expenses	(4)	(786 841)	(1 282 157)
Other operating income	(5)	474 031	216 972
Other operating expenses	(6)	(255 783)	(156 890)
Interest and similar income		812	399
Interest and similar expenses	(7)	(241 586)	(771 332)
Profit or losses before taxes		56 745	259 869
Corporate income tax	(8)	(4 282)	(6 761)
Other taxes	(9)	(45 111)	(51 277)
Net profit or losses		7 352	201 831

Notes on pages 11 to 25 are an integral part of these financial statements.

 Natālija Petrova
 Chairman of the Board

Daugavpils, 21 April 2010

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

BALANCE SHEET

		31.12.2009.	31.12.2008.
		Ls	Ls
	Notes		
<u>ASSETS</u>			
Non-current assets			
Tangible assets:			
Land and buildings	(10)	1 329 663	1 524 079
Equipment and machinery	(10)	1 133 900	1 241 611
Other tangible assets	(10)	166 118	241 864
Tangible assets under construction	(10)	19 805	33 660
Total tangible assets:		2 649 486	3 041 214
Investment property:			
Buildings	(10)	2 330 852	2 539 427
Total non-current financial investments:		2 330 852	2 539 427
Non-current financial investments:			
Investments in subsidiaries	(11)	20 000	22 000
Total non-current financial investments:		20 000	22 000
Total non-current investments:		5 000 338	5 602 641
Current assets			
Inventories:			
Raw materials and consumables	(12)	1 773 517	1 960 429
Work in progress		291 613	-
Finished goods and goods for sale	(13)	69 819	57 945
Advances for inventories		612 588	25 754
Total inventories:		2 747 537	2 044 128
Account receivable:			
Trade receivables	(14)	2 166 691	2 632 376
Receivables from group companies	(15)	1 742 808	1 841 198
Other receivables	(16)	206 313	378 300
Deferred expenses	(17)	5 675	9 011
Accrued income	(18)	835 534	2 240 966
Total receivables:		4 957 021	7 101 851
Cash and bank:	(19)	108 396	28 487
Total current assets:		7 812 954	9 174 466
<u>Total assets</u>		<u>12 813 292</u>	<u>14 777 107</u>

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AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

BALANCE SHEET

		31.12.2009.	31.12.2008.
		Ls	Ls
	Notes		
<u>EQUITY, PROVISIONS AND LIABILITIES</u>			
Equity			
Share capital	(20)	8 294 219	8 294 219
Non-current assets revaluation reserve	(10)	1 278 616	1 562 694
Retained earnings			
a) previous year's retained earnings		(4 440 371)	(4 642 202)
b) current years profit or losses		7 352	201 831
Total equity:		5 139 816	5 416 542
Provisions:	(21)	469 788	816 502
Liabilities:			
Non-current liabilities:			
Loans from banks	(22)	1 636 143	1 943 975
Deferred income tax liabilities	(8)	225 256	271 106
Total non-current liabilities:		1 861 399	2 215 081
Current liabilities:			
Loans from banks	(22)	1 107 585	2 430 788
Advances from customers		1 094 837	543 005
Trade payables		2 012 658	1 882 507
Payables to group companies	(23)	532 818	795 498
Taxes and social insurance payments	(24)	1 029	31 463
Other liabilities	(25)	31 947	43 043
Accrued liabilities	(26)	561 415	602 678
Total current liabilities:		5 342 289	6 328 982
Total liabilities:		7 203 688	8 544 063
<u>Total equity, provisions and liabilities</u>		<u>12 813 292</u>	<u>14 777 107</u>

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 Natālija Petrova
 Chairman of the Board

Daugavpils, 21 April 2010

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

STATEMENT OF CHANGES IN EQUITY

		Share capital	Non-current assets revaluation reserve	Retained earnings	Total
	Notes	Ls	Ls	Ls	Ls
31.12.2007.		8 294 219	2 783 022	(4 642 202)	6 435 039
Revaluation of tangible assets	(10)	-	(1 357 166)	-	(1 357 166)
Disposal of revalued tangible assets		-	(78 514)	-	(78 514)
Changes in deferred tax liabilities	(9)	-	215 352	-	215 352
Profit for the year		-	-	201 831	201 831
31.12.2008.		8 294 219	1 562 694	(4 440 371)	5 416 542
Revaluation of tangible assets	(10)	-	(288 815)	-	(288 815)
Disposal of revalued tangible assets		-	(45 395)	-	(45 395)
Changes in deferred tax liabilities	(9)	-	50 132	-	50 132
Profit for the year		-	-	7 352	7 352
31.12.2009.		8 294 219	1 278 616	(4 433 019)	5 139 816

Notes on pages 11 to 25 are an integral part of these financial statements.

 Natālija Petrova
 Chairman of the Board

Daugavpils, 21 April 2010

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

CASH FLOW STATEMENT

	2009	2008
	Ls	Ls
Cash flow from operating activities		
Profit or losses before taxes	56 745	259 869
<u>Adjustments for:</u>		
depreciation of tangible and intangible assets	402 760	409 337
profit from disposal of tangible assets	(49 282)	(89 364)
losses from the revaluation of equity investments	2 000	-
changes in provisions	(140 532)	(35 165)
gains from foreign exchange fluctuations	(10 923)	95 457
interest expenses	142 877	316 212
Cash flow prior to changes in current assets and liabilities	403 645	956 346
Inventory (increase)/decrease	(703 409)	707 995
Account receivable (increase)/decrease	1 938 650	678 990
Account payable increase/(decrease)	336 508	(560 330)
Gross cash flow generated from operating activities	1 975 394	1 783 001
Interest paid	(142 832)	(315 299)
Corporate income tax paid	(45 111)	(35 581)
Net cash flow generated from operating activities	1 787 451	1 432 121
Cash flow from investing activities		
Acquisition of tangible and intangible assets	(91 272)	(316 675)
Proceeds from sales of tangible assets	3 887	29 026
Loans issued to subsidiaries (net)	-	237 122
Net cash flow generated from investing activities	(87 385)	(50 527)
Cash flow from financing activities		
Loans repaid	(1 620 157)	(1 458 441)
Net cash flow generated from financing activities	(1 620 157)	(1 458 441)
Net increase / (decrease) in cash and cash equivalents	79 909	(76 847)
Cash and cash equivalents at the beginning of the financial year	28 487	105 334
Cash and Cash equivalents at the end of the financial year	(19) 108 396	28 487

Notes on pages 11 to 25 are an integral part of these financial statements.

 Natālija Petrova
 Chairman of the Board

Daugavpils, 21 April 2010

NOTES TO THE FINANCIAL STATEMENTS

I. ACCOUNTING POLICIES

(1) General principles

Financial statements are prepared in accordance with the Laws of the Latvian Republic On Accounting, On the Annual Reports and the Latvian Accounting Standards (LAS) issued by the Accounting council of the Ministry of Finance of the Latvian Republic, applicable in the financial year.

The financial statements have been prepared according to the historical cost accounting principle, that is modified by preparing revaluation of tangible assets and investments, as recognized in Notes (4) to accounting policy. The income statement is prepared in accordance with the turnover cost method. The cash flow statement has been prepared under indirect cash flow method.

(2) Income recognition and net sales

Net sales contains the total value of goods and services sold during the year excluding discounts and value added tax.

Income is recognized according to the following principles:

Sales of goods - after significant ownership risk and rewards have been passed to the buyer;

Rendering of services - under the stage of completion method (see description below);

Income from fines and penalties - at the moment of receiving the payments;

Interest income - on accrual basis.

Contract costs related to repair and modernization services are recognised on the basis of completion. Expenses connected with repair service agreement are recognized in the moment when occurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Company applies the stage of completion method to determine the appropriate amount of revenues to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to balance sheet date as a percentage of total estimated costs for each contract or carrying out surveys of work performed to date, which of them are more reliable. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories or other assets, depending on their nature.

(3) Foreign currencies conversion to lats

The Company performs its accounting in Latvian Lats. All transactions denominated in foreign currencies are converted into Lats at the exchange rate set by the Bank of Latvia on the day of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official exchange rate set by Bank of Latvia for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized in the income statements in the respective period on net amount.

	31.12.2009.	31.12.2008.
	Ls	Ls
1 USD	0.489	0.495
1 EUR	0.702804	0.702804
1 LTL	0.204	0.203
1 EEK	0.0449	0.0449
1 RUB	0.0164	0.0171

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
STATUTORY ANNUAL REPORT
for the period ended 31 December 2009

(4) Tangible assets

Tangible assets are initially recognized at the purchase cost. Purchase cost includes costs, directly related to the acquisition of tangible assets.

Buildings and constructions are recognized at fair value of regularly made independent evaluation, less accrued depreciation. Land is recognized at fair value of regularly made independent evaluation. The difference that appears from revaluation is recognized in equity under "Long-term assets revaluation reserve". Other tangible assets are recognized in purchase cost, less accrued depreciation. Purchase cost includes costs, directly related to the acquisition of tangible assets.

Depreciation is calculated on a straight-line basis applying the following rates of depreciation set by the management, based on the estimated useful life of the tangible assets:

	Depreciation % per annum
Buildings	1,11 - 20
Technological equipment	4 - 20
Other machinery and equipment, transport vehicles	20

The Company capitalizes its tangible assets valued over Ls 300 with useful life exceeding 1 year. Depreciation for improvements and other low costs items with the value less than 300 Ls is recognized in 50 -100% amount after its ready for use.

If sufficient evidence is acquired that the future economic benefit associated with subsequent costs will flow to the Company, which exceeds the return set previously, costs are capitalized as additional costs to the tangible asset. Capitalizing the cost of replaced parts, the carrying amount of the part replaced is derecognized and charged to the income statement. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Net gains or losses from disposal of tangible assets is calculated, as the difference between the carrying amount of the tangible asset, write-off of related assets revaluation reserve (if any) and proceeds from sale, and recognized in the income statements during the period when disposal are incurred.

If it is possible to conclude due to any kind of occurrence or circumstances that residual value of tangible or intangible assets could exceed its recoverable value, appropriate value of tangible or intangible asset is to be decreased until recoverable value. Recoverable value is prescribed as the highest from actual value of investigation, discharging purchase costs or usage values.

(5) Investment property

Investment property is property (land, building or part of building) held by the Company (as owner or by lessee under a finance lease) to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. For the land with uncertain future use (if the Company has not determined that it will use the land as owner occupied or short term sale in the ordinary course of business, it is assumed that land is held for capital appreciation), it is classified as investment property.

Investment property initially recognized at purchase cost. Further the investment property are recognized at fare value of regularly made independent evaluation, less accrued depreciation. Differences in value arising from revaluation is recognized in equity under "Long-term assets revaluation reserve".

Depreciation of buildings is calculated on a straight-line basis applying the following rates of depreciation, based on their estimated useful life:

	Depreciation % per annum
Buildings (depending on building component)	1,67 - 10

(6) Inventories

Inventories are stated at the lower of purchase or production cost and net realizable value. Purchase costs consists of purchase value and overheads, which have been acquired, by delivering inventories at their current position and value. The costs of materials and other expenses that are directly connected with the production of the appropriate item as well as a respective part of overhead expenses are included in the production cost of inventories. Selling expenses has not included in cost. Cost is stated on the FIFO method. When the net realizable value of inventories is lower than its costs, the difference is recognized as provisions for the decrease of value.

(7) Account receivable

Receivables are recognized in the balance sheet at their net value, less provisions made for doubtful and bad debts. Provisions for doubtful receivables are established when the management of the Company considers that it is probable that the total amount of receivables will not be collected .

(8) Investments in group and associates, other financial investments

Investments in subsidiaries are stated at cost less impairment losses.

(9) Provisions

Provisions are recognized, when there is a present obligation as a result of current or previous years events, it is probable that an outflow or resources will be required, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

(10) Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

(11) Taxation

Deferred tax is calculated according to the liability method with respect to all temporary differences between the values of assets and liabilities in the financial statements and their tax basis. The deferred tax liability is calculated based on the tax rates that are expected to be applied when the temporary differences reverse. The temporary differences arise from different tangible asset depreciation rates, impairment of assets as well as from tax losses carried to the next taxation periods. In cases, when the total result of the deferred tax calculation is to be reflected as assets, it is recognized in the financial statements only if a future taxable profit will be available against which the temporary differences can be utilised.

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, the balances of the current bank account and other current liquid financial assets with maturities up to 90 days.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
STATUTORY ANNUAL REPORT
for the period ended 31 December 2009

(13) Group companies

Group companies are considered parent, subsidiaries of the parent and subsidiaries of subsidiaries, providing that the parent company has a control over its subsidiaries.

(14) Related parties

Related parties are considered Group companies, Board and Council members, their close family members and Companies, in which the previously mentioned persons have significant influence or control.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

II. OTHER NOTES

(1) Net sales

	2009	2008
	Ls	Ls
By operating activities		
Income from railway rolling stock repair and upgrade services	7 774 870	16 155 931
Income from sales of railway spare parts, locomotives and wagons	1 736 014	-
Income from sales of materials (see note 30)	2 364 111	4 632 222
Income from rent of premises and equipment (see note 30)	1 292 103	1 810 190
Management and administrative services (see note 30)	125 455	483 367
Other income from transactions with subsidiaries (see note 30)	89 319	221 874
Other income	133 082	421 032
	<u>13 514 954</u>	<u>23 724 616</u>

By location

Income from sales of goods/services in Latvia	5 773 454	9 714 425
Income from sales of goods/services to Russia	2 826 500	9 784 091
Income from sales of goods/services to EU markets	2 145 400	2 300 100
Income from sales of goods/services to Uzbekistan	2 387 400	1 502 200
Income from sales of goods/services to Belarus	319 400	142 700
Income from sales of goods/services to other countries	62 800	281 100
	<u>13 514 954</u>	<u>23 724 616</u>

(2) Cost of sales

Service costs of subsidiaries	6 931 851	12 873 550
Raw materials and consumables	3 251 158	7 483 828
Acquisition costs of spare parts, locomotives and wagons sold	1 671 644	-
Depreciation of tangible assets	302 730	294 964
Costs of goods sold	68 565	146 346
Utility expenses	58 135	25 229
Changes in provisions for warranty repairs (see note 21)	(36 462)	19 621
Changes in provisions for impairment of inventories	-	(29 041)
Other production costs	281 063	444 576
	<u>12 528 684</u>	<u>21 259 073</u>

(3) Distribution expenses

Transportation costs	70 579	112 328
Salary expenses	40 045	77 764
Mandatory State social insurance costs	9 534	18 733
Other selling costs	-	3 841
	<u>120 158</u>	<u>212 666</u>

(4) Administrative expenses

Salary expenses	336 636	678 072
Mandatory State social insurance costs	80 049	157 975
Utility expenses	105 815	143 457
Rent expenses	10 166	14 471
Office expenses	27 483	129 744
Depreciation of tangible assets	98 920	112 884
Professional service costs	6 820	9 500
Representation costs	2 614	3 010
Other administrative expenses	118 338	33 044
	<u>786 841</u>	<u>1 282 157</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

	2009	2008
	Ls	Ls
(5) Other operating income		
Net gain from disposal of tangible assets	49 281	107 540
Changes in provisions for financial support (see note 21)	318 929	-
Trade receivables gained	-	25 300
Rental income	58 060	18 432
Other income	47 761	65 700
	<u>474 031</u>	<u>216 972</u>

(6) Other operating expenses		
Provisions for decrease of value of trade receivables	242 644	8 291
Changes in other provisions	-	100 039
Collective agreement costs	7 093	17 437
Other expenses	6 046	31 123
	<u>255 783</u>	<u>156 890</u>

(7) Interest and similar expenses		
Interest charge	142 877	316 212
Net loss from exchange rate fluctuations	93 942	409 549
Penalties paid	4 767	45 571
	<u>241 586</u>	<u>771 332</u>

(8) Corporate income tax

a) Components of corporate income tax

Changes in deferred income tax	4 282	6 761
	<u>4 282</u>	<u>6 761</u>

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	2009	2008
	Ls	Ls
Profit or losses before taxes	56 745	259 869
Real estate tax	(45 111)	(51 277)
Profit or losses before corporate income tax	<u>11 634</u>	<u>208 592</u>
Theoretically calculated tax at 15% tax rate	<u>1 745</u>	<u>31 289</u>
Tax effects on:		
Permanent differences	2 537	(24 528)
Total corporate income tax expenses	<u>4 282</u>	<u>6 761</u>

b) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	271 106	479 697
Deferred tax charged to the income statement	4 282	6 761
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	(50 132)	(215 352)
Deferred tax liabilities (asset) at the end of the financial year	<u>225 256</u>	<u>271 106</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

	31.12.2009.	31.12.2008.
	Ls	Ls
Temporary difference on depreciation of tangible and intangible assets	361 811	414 100
Gross deferred tax liabilities	<u>361 811</u>	<u>414 100</u>
Provisions for expected losses	437	5 907
Provisions for contingent liabilities	70 280	122 475
Provisions for impairment of inventories	11 250	11 250
Provisions for impairment of trade receivables	36 397	-
Tax losses carried forward	18 191	3 362
Total temporary differences	<u>136 555</u>	<u>142 994</u>
Net deferred tax liability (assets)	<u>225 256</u>	<u>271 106</u>
	2009	2008
	Ls	Ls
(9) Other taxes		
Real estate tax for land	3 837	5 956
Real estate tax for buildings	41 274	45 321
	<u>45 111</u>	<u>51 277</u>

(10) Tangible assets and investment property

	Tangible assets				Investment property	
	Land and buildings	Equipment and machinery	Other tangible assets	Tangible assets under construction	Total	Buildings
	Ls	Ls	Ls	Ls	Ls	Ls
Cost/revaluation						
31.12.2008.	1 887 407	5 580 289	698 735	33 660	8 200 091	2 802 906
Additions	1 931	103 196	-	91 272	196 399	-
Disposals	-	(90 671)	(7 339)	(105 127)	(203 137)	(1 269)
Revaluation	(172 825)	-	-	-	(172 825)	(115 990)
31.12.2009.	<u>1 716 513</u>	<u>5 592 814</u>	<u>691 396</u>	<u>19 805</u>	<u>8 020 528</u>	<u>2 685 647</u>
Depreciation						
31.12.2008.	(363 328)	(4 338 678)	(456 871)	-	(5 158 877)	(263 479)
Calculated	(23 522)	(210 907)	(75 746)	-	(310 175)	(92 585)
Disposals	-	90 671	7 339	-	98 010	1 269
31.12.2009.	<u>(386 850)</u>	<u>(4 458 914)</u>	<u>(525 278)</u>	<u>-</u>	<u>(5 371 042)</u>	<u>(354 795)</u>
Net carrying amount 31.12.2008.	<u>1 524 079</u>	<u>1 241 611</u>	<u>241 864</u>	<u>33 660</u>	<u>3 041 214</u>	<u>2 539 427</u>
Net carrying amount 31.12.2009.	<u>1 329 663</u>	<u>1 133 900</u>	<u>166 118</u>	<u>19 805</u>	<u>2 649 486</u>	<u>2 330 852</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

* In accordance with the accounting policy of the Company, all land and buildings owned by Company, except those which are transferred under operating lease to subsidiaries of the Company, are classified as tangible assets (see note 30).

Company's land plots cadastral value on 31 December 2009 is Ls 476 721, the cadastral value of buildings is Ls 5 087 732.

Information on pledged tangible assets is disclosed in the Note 22 to the financial statements.

In years 1996, 1999 and 2001 the Company has performed revaluation of land, buildings and equipment. Respectively in 1996 value of tangible assets was increased for Ls 659 538, in 1999 for Ls 1 317 852 and in 2001 for Ls 889 954. The difference accrued in the result of revaluation is recognized in the equity item "The long-term assets revaluation reserve".

With the assistance of licensed independent experts in 2007 and 2008 the Company has performed revaluations of its own land and buildings. The decrease of value occurred in the result of revaluation was in the amount of Ls 2 534 868 in 2007 and Ls 1 357 166 in 2008 (less the amount of deferred tax liabilities related to the revaluation of tangible assets) are deducted from revaluation reserves.

During the preparation of the financial statements of 2009 the Company has identified the impairment of its owned land and buildings in amount Ls 288 815. Evaluation of real estate was prepared by an independent expert using the comparable transaction method (market pricing) and future cash flow method.

If the revaluation would not be performed the value of land and building would be the following:

	31.12.2009.	31.12.2008.
	Ls	Ls
Cost	4 689 639	4 688 976
Accumulated depreciation	(1 641 004)	(1 590 640)
Net carrying amount	<u>3 048 635</u>	<u>3 098 336</u>

During the year 2009 borrowing costs were not capitalized as the Company had not used the funding for the purchase of tangible assets.

(11) Equity investments

Name	Address	Participating interest		Equity		Profit/(loss)	
		31.12.2008.	31.12.2009.	31.12.2008.	31.12.2009.	2008	2009
		%	%	Ls	Ls	Ls	Ls
SIA Rel	Marijas 1,	100%	100%	(721 949)	(873 476)	(180 503)	(151 527)
SIA Elap	Marijas 1,	100%	100%	68 044	36 704	70 405	(31 340)
SIA Remdīz	Marijas 1,	100%	100%	(326 500)	(382 302)	(6 180)	(55 802)
SIA Ritrem	Marijas 1,	100%	100%	67 018	63 163	349 125	(3 855)
SIA Elektromaš	Marijas 1,	100%	100%	346 650	348 207	263 715	1 557
SIA Krāsotājs	Marijas 1,	100%	100%	(123 335)	(153 642)	(11 064)	(30 307)
SIA SPZČ	Marijas 1,	100%	100%	150 901	(46 393)	225 175	(197 294)
SIA Metalurgs	Marijas 1,	100%	100%	(408 039)	(400 028)	(88 744)	8 011
SIA Remenergo	Marijas 1,	100%	100%	(48 243)	(180 909)	56 805	(132 666)
SIA Instruments	Marijas 1,	100%	100%	(107 034)	(107 163)	(2 870)	(129)
SIA Loģistika	Marijas 1,	100%	100%	(21 892)	1 215	25 711	23 107
				<u>(1 124 379)</u>	<u>(1 694 624)</u>	<u>701 575</u>	<u>(570 245)</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

The activity of subsidiary companies is the overhaul repair of different parts of railway rolling stock, maintenance and upgrade, as well as additional function performance, including:

SIA Rel	Railway rolling stock carbody repair and upgrade
SIA Elap	Repair and upgrade of electric equipment of rolling stock
SIA Remdīz	Repair of engine and it's knots of rolling stock
SIA Ritrem	Repair and upgrade of wheel couples and lorry, it's knots of rolling stock
SIA Elektromaš	Repair and producing of electromotors, generators and transformers
SIA Krāsotājs	Dyeing of rolling stock
SIA SPZČ	Repair and producing of spare parts
SIA Metalurģs	Metal foundry
SIA Remenergo	Maintenance of movable property and real estate, technical control and overhaul of buildings, constructions and producing equipment, rendering services of public facilities to Group companies
SIA Instruments	Not active
SIA Loģistika	Transportation, loading, unloading services

In year 2010 the Company sold SIA "REL" shares, resulting impairment of participation interest in the reporting year for Ls 2 000 and impairment of trade receivables for Ls 242 644.

(12) Raw materials and consumables	31.12.2009.	31.12.2008.
	Ls	Ls
Raw materials, material and auxiliary material cost	1 825 517	2 012 429
(Provisions for damaged and obsolete stock)	(52 000)	(52 000)
	<u>1 773 517</u>	<u>1 960 429</u>

(13) Finished goods and goods for resale		
Finished goods	92 691	80 746
Other goods for sale	128	199
(Provisions for damaged and obsolete stock)	(23 000)	(23 000)
	<u>69 819</u>	<u>57 945</u>

(14) Trade receivables		
Book value of trade receivables	3 144 950	3 411 415
(Provisions for bad and doubtful debts)	(978 259)	(779 039)
	<u>2 166 691</u>	<u>2 632 376</u>

Provisions for bad and doubtful debts have been made 100 % of their book value.

(15) Receivables from group companies	31.12.2009.	31.12.2008.
	Ls	Ls
Settlements with subsidiary companies	1 925 048	1 780 894
Loans to subsidiary companies	60 404	60 304
(Provisions for impairment)	(242 644)	-
	<u>1 742 808</u>	<u>1 841 198</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

	31.12.2009	31.12.2008
(16) Other receivables	Ls	Ls
VAT overpaid (see Notes 24 for details)	100 844	156 278
Corporate income tax overpaid (see Notes 24 for details)	66 968	200 900
Payments for guarantees	15 488	13 354
VAT for advances received	303	3 393
Payments for other services	2 149	2 205
Other receivables	3 002	2 113
Payments to personnel	327	-
Other taxes overpaid	17 232	57
	<u>206 313</u>	<u>378 300</u>

(17) Deferred expenses		
Insurance costs	2 596	4 014
Other expenses	3 079	4 997
	<u>5 675</u>	<u>9 011</u>

(18) Contracts in progress		
Accrued income for repair and modernization contracts	838 449	2 280 343
Provisions for potential losses	(2 915)	(39 377)
Gross amount for accrued income	<u>835 534</u>	<u>2 240 966</u>
hereof:		
accrued income in assets	<u>835 534</u>	<u>2 240 966</u>

(19) Cash and bank		
Cash at bank on current accounts	107 450	27 620
Cash on hand	946	867
	<u>108 396</u>	<u>28 487</u>

(20) Share capital

Registered and fully paid share capital of the Company is Ls 8 294 219, which consist of 8 294 219 fully paid registered shares. Nominal value of each share is 1 Ls. All shares guarantees equal rights to dividends, reception of liquidation quotes and suffrage in shareholder's meeting. One share gives rights to 1 vote. all shares are dematerialized. Company has not shares which holds by the Company or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed.

In year 2001 1 299 367 shares of the Company has been quoted in AS NASDAQ OMX stock exchange in second list. At the end of financial year 1 299 367 shares were quoted.

(21) Provisions

	31.12.2009.	31.12.2008.
Provisions for warranty repair	22 215	50 000
Provisions for financial support	447 573	766 502
	<u>469 788</u>	<u>816 502</u>

In accordance with signed agreements, the Company provides free of charge warranty repairs to customers under the general terms of the repair. Taking into account that the rolling stock repairs actually are carried out by the subsidiaries of the Company, which estimates the provisions for warranty repairs in its separate financial statements, the provision in financial statements of the Company estimated as the difference between the potential expenses of the Group and provisions made by subsidiary company.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

In accordance with accepted and in 2007 introduced operation model described in Note 30 the Company provides to subsidiary the financial resources for supporting its operations. Subsidiary companies results of operations and financial standings are disclosed in Note 11 to the financial statements. Taking into account that a part of the subsidiary companies have negative financial results of operations, it is expected that the Company or the Group's other subsidiary companies may not recover the investment or the debt of those companies. The Company was issued the support letter to all subsidiaries companies for the further financial support.

The Company makes provisions for its contingent liabilities for guarantees issued to subsidiaries to support the operations. Provisions are estimated on base of subsidiaries' current equity value and financial performance forecasts for the next periods. At the end of reporting year provisions estimated at Ls 447 573.

(22) Loans from banks	Notes	31.12.2009. Ls	31.12.2008. Ls
Non-current			
Non-current loan in USD	a)	956 891	1 139 568
Loan for installation of gas equipment in EUR	b)	-	89 846
Loan for privatization of land in EUR	c)	602 084	701 770
Other loans in EUR	d)	6 888	12 791
Credit line facilities in EUR	e)	70 280	-
		<u>1 636 143</u>	<u>1 943 975</u>
Current			
Current part of non-current loan in USD	a)	168 863	170 935
Current part of non-current loan for gas equipment in EUR	b)	89 846	89 987
Current part of loan for privatization of land in EUR	c)	99 686	99 686
Other loans in EUR	d)	5 904	5 904
Credit line facilities in EUR	e)	743 286	1 405 608
Short-term loan in EUR	f)	-	658 668
		<u>1 107 585</u>	<u>2 430 788</u>

a) In 2004 the Company has received a loan in amount of USD 4 000 000 from A/S NORVIK banka for increase of current assets. The loan must be repaid till April, 2016. The interest rate is 1.3% plus 6 months LIBOR.

b) In 2005 the Company has received a loan in amount of EUR 640 000 from A/S NORVIK banka for installation of gas equipment. The loan must be repaid till December, 2010. The interest rate is 1.6% plus 6 months EURIBOR.

c) In 2006 the Company has received a loan in amount of Ls 1 000 000 from A/S NORVIK banka for privatization of land plots. In 2007 the loan has been refinanced in euro with repayment till December 2016. The interest rate is 1.6% plus 6 months EURIBOR.

d) In 2007 the Company has received a loan in amount of EUR 42 000 from A/S NORVIK banka. It must be repaid until February 2012. The interest rate is 1.6% plus 6 months EURIBOR.

e) In 2006 Company signed agreement with A/S Norvik banka for credit line facilities, with maximum financing amount of USD 3 000 000 with the repayment till September 2007. In 2008 the Company refinanced the loan in different currency - EUR 2 000 000 which has to be repaid until 15 September 2009. During the reporting year the Company has prolonged the repayment date until 15 January, 2011. Interest rate 2.3 % + 3 month EURIBOR.

f) In 2007 Company signed short term loan agreement with A/S Norvik in amount of EUR 1 000 000 for increase of working capital. During the reporting year the Company has repaid the loan.

The implementation of the Company's obligations are provided and strengthened by:

- (i) mortgage of all belonged to Company real estate;
- (ii) commercial pledge of all Company's current and future property.

The book value of Company's mortgaged assets as at 31 December 2009 was Ls 12 813 292 (as at 31 December 2008 - Ls 14 777 107).

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

	31.12.2009	31.12.2008
(23) Payables to group companies	Ls	Ls
Settlements with subsidiaries (see note 30)	532 818	795 498
	<u>532 818</u>	<u>795 498</u>

(24) Taxes and social insurance payments

	31.12.2007.	Calculated	Calculated penalty and delay fees	(Paid)/ repaid	Transferred to other taxes	31.12.2008.
	Ls	Ls	Ls	Ls	Ls	Ls
VAT	(156 278)	(615 944)	79	551 852	119 526	(100 765)
Personal income tax	11 090	64 561	-	-	(76 824)	(1 173)
Social insurance payments	18 740	142 085	82	(473)	(176 400)	(15 966)
Corporate income tax	(200 900)	-	234	-	133 698	(66 968)
Real estate tax (land)	-	3 837	241	(4 250)	-	(172)
Real estate tax (buildings)	-	41 274	3 147	(44 421)	-	-
Natural resource tax	1 592	3 059	-	(3 650)	-	1 001
State enterprise risk duty	41	387	-	(400)	-	28
Total	(325 715)	(360 741)	3 783	498 658	0	(184 015)
Hereof						
(Overpaid) - see Note 16	(357 178)					(185 044)
Payables	31 463					1 029

(25) Other liabilities

	31.12.2009.	31.12.2008.
	Ls	Ls
Salaries	27 584	34 734
Other payments to personnel	207	667
Other liabilities	4 156	7 642
	<u>31 947</u>	<u>43 043</u>

(26) Accrued liabilities

Accrued liabilities to subsidiary companies	490 919	550 705
Accrued unused annual leave expenses	35 411	34 574
Other accrued liabilities	35 086	17 399
	<u>561 416</u>	<u>602 678</u>

(27) Average number of employees

Average number of people employed during the financial year	<u>124</u>	<u>167</u>
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(28) Remuneration to personnel

Employee pay	376 681	762 764
Social insurance payments	89 538	178 121
Other expenses	90 389	134 385
	<u>556 608</u>	<u>1 075 270</u>

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

(29) Remuneration to the management	2009 Ls	2008 Ls
Board members		
· salary expenses	72 432	123 319
· other social insurance expenses	<u>17 449</u>	<u>26 468</u>
	<u>89 881</u>	<u>149 787</u>

(30) Transactions with related parties

As mentioned in Note 11, the Company holds 100% shares of subsidiary companies SIA Rel, SIA Elap, SIA Remdiz, SIA Ritrem, SIA Elektromaš, SIA Krāsotājs, SIA SPZČ, SIA Metalurģs, SIA Remenergo, SIA Instruments and SIA Logistika. Claims and liabilities against subsidiary companies are classified as receivables and payables to Group companies accordingly.

The biggest shareholders of the Company AS Skinest Rail (Estonia) and AS Spacecom (Estonia) has a material influence in Company's policy formation and decision making. Below the information about transactions with these companies are recognized, as well as with other companies, which are connected with AS Skinest Rail (Estonia) and AS Spacecom (Estonia).

a) claims and liabilities

Notes	31.12.2009.		31.12.2008.	
	Receivables	Payables	Receivables	Payables
	Ls	Ls	Ls	Ls
Group companies	1 742 808	532 818	1 841 198	795 498
Other related companies	<u>596 247</u>	<u>671 140</u>	<u>89 533</u>	<u>135 830</u>
	<u>2 339 055</u>	<u>1 203 958</u>	<u>1 930 731</u>	<u>931 328</u>

b) transactions by operating activities

Notes	Sales to related parties		Purchases from related parties	
	2009	2008	2009	2008
	Ls	Ls	Ls	Ls
Group companies				
Repair services of railway rolling stock (i)			5 454 890	12 517 937
Sales/production of materials	2 364 111	4 632 222	1 408 026	464 248
Rent of premises and equipment (31)	1 292 103	1 810 190	10 166	14 471
Administrative and management services (ii)	136 592	497 867	-	-
Other transactions	<u>118 747</u>	<u>251 093</u>	<u>262 702</u>	<u>666 158</u>
Total subsidiaries:	<u>3 911 553</u>	<u>7 191 372</u>	<u>7 135 784</u>	<u>13 662 814</u>
Other related parties				
Repair services of railway rolling stock	2 215 245	2 616 947	16 728	40 422
Sales/purchases of materials	<u>36 156</u>	<u>14 861</u>	<u>1 765 515</u>	<u>2 335 461</u>
Total other related parties:	<u>2 251 401</u>	<u>2 631 808</u>	<u>1 782 243</u>	<u>2 375 883</u>
	<u>6 162 954</u>	<u>9 823 180</u>	<u>8 918 027</u>	<u>16 038 697</u>

a) Since 2007 the Company has been providing repair of the railway rolling stock by purchasing repair services from its subsidiary companies. The largest subsidiary companies, which provide the Company with railway rolling stock repair services, are SIA Rel, SIA Elap, SIA Remdiz, SIA Elektromaš, SIA Ritrem un SIA Krāsotājs. Each of these mentioned companies carry out the separate part of mentioned services according to every subsidiary company's activity (see Note 11). Respectively, SIA Remenergo, SIA SPZČ, SIA Instruments, SIA Metalurģs and SIA Logistika provide mainly assistant functions in railway rolling stock repair works. These services are provided to other subsidiary companies, as well as to the Company.

b) The Company provides administrative management services for subsidiary companies, which includes accounting, economic, control and metrology, technical services and supplement technological process with services of engineers - constructors.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
 STATUTORY ANNUAL REPORT
 for the period ended 31 December 2009

(31) Rental agreements

In accordance with concluded agreement in January 2007 the Company leases all production buildings, technological devices and other tangible assets and equipment used in principal activity of the Group, to subsidiary company SIA "Remenergo". Rental payments for building and equipment lease in 2009 were Ls 1 292 103 (in 2008 Ls 1 810 190). Lease agreement is concluded for indefinite time.

(32) Managing financial risks

Activity of the Company is subjected to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The management of the Company seeks to minimize potential financial risk for the adverse effect on the Company's financial position. The Company do not use derivative financial instruments for financial risk management.

Foreign currency risks

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar (USD) and the Russian ruble (RUR) fluctuations against the lats and other currencies that are fixed to the euro. Foreign currency risks arises from future commercial transactions, recognized assets and liabilities. Most of the raw materials the Company purchases in euro, RUR and USD, but a significant part of production is sold in the domestic market and exported to the markets, dominated by the euro and RUR. In 2009 the Company has reduced the volume of transactions in U.S. dollars.

Since 2005 the Bank of Latvia has stated a fixed currency exchange rate for lats against euro, i.e. 0.702804, and ensure that the market rate will not differ from the official rate by more than 1%. As far as the Bank of Latvia maintains the above mentioned exchange corridor, the Company will not have a significant currency exchange risks in respect of assets and liabilities nominated in euro.

	31.12.2009.	31.12.2008.
Financial assets, EUR	21 209	190 389
Financial liabilities, EUR	(2 888 974)	(4 588 953)
Open position EUR, net	<u>(2 867 765)</u>	<u>(4 398 564)</u>
Open position EUR calculated in lats, net	<u>(2 015 477)</u>	<u>(3 091 328)</u>
Financial assets, USD	4 227 074	2 378 980
Financial liabilities, USD	(6 042 637)	(5 373 564)
Open position USD, net	<u>(1 815 563)</u>	<u>(2 994 584)</u>
Open position USD calculated in lats, net	<u>887 810</u>	<u>(1 482 319)</u>
Financial assets, RUB	27 039 385	70 635 040
Financial liabilities, RUB	(16 923 607)	(2 978 222)
Open position RUB, net	<u>10 115 778</u>	<u>67 656 818</u>
Open position RUB calculated in lats, net	<u>165 899</u>	<u>1 156 932</u>

Interest rate risks

The Company is exposed to interest rate risk, because for most of the liabilities is interest-bearing with floating interest rates (see Note 22), while the majority of the Company's financial assets are claims without interest calculations, thereby the Group is subjected to floating interest rate fluctuation risk. In 2009 interest rate on all loan facilities has been decreased substantially.

AS "Daugavpils Lokomotīvu Remonta Rūpnīca"
STATUTORY ANNUAL REPORT
for the period ended 31 December 2009

Credit risk

The Company is subject to the credit risk with respect to the debts of its customers, subsidiary companies, other receivables and cash and its equivalents. The Company manages its credit risk constantly reviewing the repayment history of the client debts and stating the credit conditions for each client individually. In addition, the Company continuously monitors the amount receivable balances to reduce the occurrence of bad debts. See Notes 21 with regard to recognised provision for financial support to subsidiary companies.

Liquidity risk

The Company controls its liquidity risk by maintaining appropriate amount of cash and cash equivalents and using credit line facilities granted by banks.

Part of the Company's borrowings from credit institutions in amount of Ls 1 107 585 is repayable in 2010. year. The planned cash flow in 2010 is sufficient for the repayment of short term loans and continuation of operation activities.

(33) Subsequent events

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2009.

Natālija Petrova
Chairman of the Board

Daugavpils, 21 April 2010

The annual report has been approved by the shareholders meeting on ____ April 2010
